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Chadwick, S.

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# Sport facing unprecedented problems in the face of global recession: A commentary

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By Simon Chadwick, [Coventry University](#)

All well-written dramas have a beginning, a middle and an end, in between which the plot will twist and turn, often in unexpected ways. So it is then, that the global economic downturn appears to have all the hallmarks of a classic drama. The impact of the downturn on sport has certainly started, it definitely is not yet finished, and so we find ourselves somewhere in the middle of what is rapidly becoming the most unprecedented situation facing the new world of commercialised, globalised sport. Just short of six months ago(1), I was asked to comment upon the consequences the downturn might have for sport. While I stand by the underlying principles of my assessment at the time – that sport will be amongst the most recession-resistant industries – the world's economic problems have developed with a velocity and severity that has taken even the most pessimistic commentators by surprise. Indeed, sport, which at one time may have appeared to be largely immune to the impending recession in some countries, can now only be described at the very best as being more resistant than, for instance, the financial services sector. Events, sponsors, clubs and players have already been affected by an economic reality that some in sport have never encountered before. Yet it was the demise of the Honda Formula One team late last year (1) that arguably sharpened people's sense that sport faces a major problem in coping with the downturn. Many were left asking, if a sport like Formula One, characterised by its heady mix of money, global appeal and glamour, could fall victim to the world's financial paralysis, then nobody would be safe. Such was the impact of Honda's pullout, that Formula One witnessed a game of Chinese whispers in which rumours of further pullouts, involving teams ranging from Benetton to Toyota, were being pedalled. During nervous times, people inevitably become twitchy, a sense of self-fulfilling prophecy hanging thick in the air. For the time being at least, the world's premier motor-racing series appears to have stabilised itself, in part due to a recent cost-saving agreement amongst the participating teams. However, as with all good dramas, there may yet be several twists and turns in the story.

**“In recessionary times, sport is effectively a safe port amidst the eye of a storm. The essence of this is what economists refer to as the ‘uncertainty of outcome’: not knowing which of the competitors in a sporting contest is going to emerge victorious.”**

One of the interesting aspects of the Honda case is that it dispelled the myth that the downturn is a distinctly Anglo-Saxon phenomenon: we are actually all in this together. This leads one to recall the old adage that when America sneezes, others catch a cold. In this case, the United States is not just sneezing, it is coughing, spluttering and running a fever, something we should all be fearful of. In sport, there is a great deal of poignancy to this; the US is home to some of the biggest, most commercial and richest sports in the world. Moreover, although it is the world's biggest free-market economy, the US runs its sports like communists through a range of centralist measures designed to ensure the health and efficiency of national institutions like basketball, baseball recession has already taken hold of US sport. For instance, the National Football League has announced that it will be shedding around 10% of its workforce, and the Indianapolis Motor Speedway (home to the Indy 500 motor racing event) has indicated that it too will be making serious job cuts. Elsewhere, the world's richest sportsman, Tiger Woods, has had his five-year, \$8 million annual contract with Buick terminated early. Outside the US, the picture is no less worrying, there being further evidence that sport is encountering difficult times. The World Rally Championship teams Subaru and Suzuki have followed Honda out of top-level motorsport; Vodafone has withdrawn its sponsorships of both the England cricket team and the Epsom Derby horse race; and the 2009 Indian Golf Masters has been cancelled. Consider also the case of English Premier League football club West Ham United: firstly it lost its shirt sponsor when XL Airlines went into administration. The deal, worth an estimated £7.5 million over three years, has since

been replaced by a new deal with online gambling company SBOBET, a deal thought to be worth considerably less than the XL deal at £2 million for an 18 month deal. In the meantime, the Icelandic owner of West Ham has suffered severely as a result of the world's financial crisis. Yet there remains conflicting evidence about just how serious the downturn actually is, and about whom it is most affecting. Even during these supposedly difficult times, a number of Middle Eastern emirates continue to jockey for position as one of the world's leading sports-hubs, alongside other Asian competitors such as Singapore. The economic power of these emirates is such that we have seen the recent acquisition of Manchester City for £200+, overnight making them the world's richest football clubs, followed by City's immediate purchase of Brazilian player Robinho for £32 million. Moreover, in the face of impending economic gloom, last year's Singapore F1 Grand Prix (1) was the self-proclaimed antidote to global economic woes. Then factor in the Beijing Olympics; there were no real signs of any economic downturn in China when the country spent upwards of \$40 billion to stage the Games, and the positive economic ripple of this mega-event was even felt in Great Britain at a time when recessionary fervour was just beginning to hit. In the six weeks after the Beijing Olympics, it was being reported that in Britain that sales of bicycles had increased by upwards of 20%; sales of sports bras had increased by 27%; sales of energy bars and sports drinks had increased by 155%; and sales of swimming equipment increased by upwards of 36%. Moreover, in the aftermath of the summer Olympics, much was being made of the loss of two major International Olympic Committee sponsors (it was conveniently ignored that the loss of these sponsors was for reasons unrelated to the downturn). Significantly less was made however of their immediate replacement by two other multinational corporations as Olympic sponsors.

**“Sport not only has an intrinsic aesthetic beauty, it also enables people to BIRG (Bask in Reflected Glory), a psychological phenomenon that could help to sustain them if they are suffering the consequences of economic adversity.”**

Given the conflicting body of evidence, it would therefore appear that these are not necessarily difficult times for sport, they are more like confusing times. Is sport essentially doomed, struggling at the forefront of the downturn? Will sport be fundamentally undermined, with a multitude of teams and organisations disappearing? Or, is the apocalypse still some way away, with sports simply facing the need to change their management and operational practices in order to cope with difficult trading conditions? Despite these turbulent times, there are grounds in sport for optimism; sport as a product offers something to fans, customers, commercial partners, broadcasters and others that other products do not. Indeed, in recessionary times, sport is effectively a safe port amidst the eye of a storm. The essence of this is what economists refer to as the ‘uncertainty of outcome’: not knowing which of the competitors in a sporting contest is going to emerge victorious. In a world where products are increasingly standardised and homogenised, sport is something different, something unpredictable. This engenders in people a multitude of emotions, ranging from excitement and euphoria through to nostalgia and pride, and finally to extremes such as unquestioning devotion, and even violence. Sport therefore stands alone in offering a unique core product and an associated set of benefits. As such, one should expect sport to exhibit recession-resistant features that one would not associate with other products and industries. For instance, during times of trouble, sport provides people with an escape from the hardships they might be suffering, while providing them with an unrivalled collective consumption experience. Moreover, sport not only has an intrinsic aesthetic beauty, it also enables people to BIRG (Bask in Reflected Glory), a psychological phenomenon that could help to sustain them if they are suffering the consequences of economic adversity. There is evidence also to suggest that the economic appeal of sport can prevail during hard times; the experience of previous recessions indicates that levels of gambling activity can increase, with many people believing that a successful sporting bet may help them alleviate their fiscal constraints.

**“Whatever the macro-economic environment has in store for sport, it is the effectiveness and efficiency of their micro-level management that will ultimately determine their survival and future prosperity.”**

In the short- to medium-term at least, sport and many of the organisations in and around it are likely to be able to resist the worst effects of the downturn. Nevertheless, within and across sport, the recession is likely to have a differential impact, with some sports suffering more than others. Amongst the sports that will be most resistant are top-level football, basketball and motorsport, the reason being that each has a global and commercial appeal that has resulted in a fan base and market that is large and sufficiently diverse enough to mitigate the ravages of economic problems. Sports that are much more likely to succumb to economic pressure will be those that have much smaller fan bases, generate less income from ticket sales and broadcast contracts, and which have a highly specific geographic constituency. Colonial sports immediately spring to mind as being amongst those most obviously exposed. Others, including NASCAR – incredibly successful in North America but virtually anonymous outside the continent – will also be susceptible. Yet even within sports, there will also be a differential impact, with recessionary conditions influencing organisations to a greater or lesser extent. Take European football as an example; for many years, this has been characterised as being dominated by the ‘Big-5’ of England, Spain, Italy, Germany and France, although now commentators have begun to refer to the ‘Big-2’ (England and Spain). In these terms, one should realistically expect clubs playing in these leagues to remain in a relatively healthy state. For instance, England's Premier League (PL) is currently mid-way through a three-year broadcasting deal with Sky and Setanta. Worth more than £1 billion, the PL also sells broadcasting rights in more than 200 countries worldwide. Added to this, the PL counts amongst the most valuable sporting properties in the world: Manchester City are rumoured to be on the verge of signing a record-breaking £60 million short sponsorship deal with the airline Etihad; Arsenal have a ten-year naming rights deal with Emirates Airlines; and Manchester United is estimated to have a global fan base of more than 75 million. All would therefore seem rosy, especially as Manchester City's recession-bucking takeover on August 2008 instantaneously made them the world's richest football club, at a time when sport was first being exposed to the full force of the downturn. However, even within English football, concerns about the ramifications of present economic conditions are widespread. English professional club football is estimated to have an accumulated collective debt that is somewhere in the region of £2 billion or more and amongst the 92 professional clubs there have been at least 65 occasions over the last 20 years when a club has gone into financial administration. Current economic circumstances have brought English football's finances into sharp focus, especially when some clubs are operating at a wage to turnover ratio of more than 100%; when its leading club (Manchester United) is almost three quarter of a million pounds in debt; and Liverpool has thus far tried and failed to successfully secure the funding for a long-planned stadium. Be clear: this is the successful end of football; when

one examines clubs further down the league pyramid, some clubs are in dire trouble, and managing the consequences of a downturn is something they could do without and are ill-equipped to manage. Yet manage they must, just as all other sports and sport organisations are now faced with the same economic and managerial imperative which they face. Whatever the macro-economic environment has in store for sport, it is the effectiveness and efficiency of their micro-level management that will ultimately determine their survival and future prosperity.

**The organisations most likely to be in the best position to do this are the following:**

- **The 'Bling Brigade'** – those involved in sport whose personal wealth and commercial appeal is such that they will continue to earn money, generate revenue and deliver value, even at a time of recession. Such people are likely to derive their wealth on a global basis, with any threats to their commercial/competitive position in one market being offset by their strength in other markets. They will be amongst the purveyors of the products identified above as being 'superior' to other products, both within and outside sport. Members of the 'Bling Brigade' will be those involved in or related to elite professional sport including team owners, leading players and media magnates.

- **The 'Glory Givers'** – even at the best of times, there will be individuals, groups and teams that will enable customers to 'BiRG', that is 'Bask in Reflected Glory'. In a time of economic pessimism, being able to 'BiRG' will be a major consumption motive that allows consumers to enjoy the success of others. Amongst the reasons for this will be that the 'Glory Givers' help people forget about their economic worries and concerns. The consumption of products delivered by the 'Glory Givers' will therefore remain strong as their quality and success will remain assured. Members of the 'Glory Givers' will include any individual, group or organisation that consistently deliver success and high performance for the duration of, and beyond, the recession.

- **The 'Nifty Nichers'** – those involved in sport that currently operate or will seek to operate in niches that are not served by other organisations. These individuals, groups and organisations will produce distinctive products that serve specific markets and deliver value to their customers which are unobtainable elsewhere. Such entities will largely avoid the travails of the downturn by being close to their customers, thus understanding what they want from them. Members of the 'Nifty Nichers' may include specialist sporting consultants such as translation services, suppliers of tailored merchandise and agents that help facilitate new overseas market entry.

**"The 'Fearless Friendlies' will seek to remain close to their customers by maintaining their expenditure on activities such as sponsorship, direct marketing and public relations."**

- **The 'Fearless Friendlies'** – during times of recession, when costs and revenues will be under pressure for different reasons, the reaction of many individuals, groups and organisations will be to run scared of the market, cutting amongst other things marketing communications expenditure. However, rather than isolating themselves from the marketplace, the 'Fearless Friendlies' will seek to remain close to their customers by maintaining their expenditure on activities such as sponsorship, direct marketing and public relations. This will ensure that they are able to compete effectively for available consumer expenditure, even if total expenditure is retracting. Moreover, it will help such individuals, groups and organisations to remain close to the market, helping them to understand market dynamics, especially when the upturn emerges, and remain closely aligned to the needs of customers.

**"Those who understand the sport product they are offering and how this can be configured in such a way that it guarantees various benefits to consumers will be in a strong position to retain or improve their competitive position."**

- **The 'Guarantee Grafters'** – in sport, it is hard to guarantee spectators and fans that they will see a great game that will help them forget their economic woes. However, research indicates that in previous recessions, fans and spectators have been persuaded not to defect to other products, or to become lapsed sports consumers, by guarantees that they will have a good time of they attend a game. Those who understand the sport product they are offering and how this can be configured in such a way that it guarantees various benefits to consumers will be in a strong position to retain or improve their competitive position. At a time when consumers will be seeking value for money from their precious incomes, being sure that they will be treated properly and will receive a good quality experience will be essential in attracting and retaining fans. In the same way, the 'Guarantee Grafters' will also seek to assure sponsors, broadcasters and other commercial partners that they too will receive the same treatment thereby ensuring that such organisations remain engaged with sport.

- **The 'Loyalty Lovers'** – during recessionary conditions, evidence shows that consumers become more prone to brand switching, that is moving to other branded products that offer better value or a better general proposition. Further evidence shows that the way to counter such behaviour is to implement loyalty programmes that help organisations draw their customers closer to them during times of trouble. Rather than being simplistic attendance rewards, existing research shows that linking fan attendance to other benefits such as discounted purchases elsewhere not only maintains and promotes attendance, but also enables consumers to offset their expenditure on sport with savings elsewhere. In addition, closeness to the team has also been observed as a key facet of loyalty building. Examples of such initiatives show that when players are more accessible to fans, meeting with them, signing autographs or participating in on-line discussions, the loyalty of customers is enhanced. As above, customers should be defined to include sponsors, commercial partners et al., as well as fans and spectators.

- **The 'Price Promoters'** – too many organisations in sport are thought to pursue cost-based pricing strategies rather than following a more market-oriented approach to pricing. In a recession, this is a problem; many consumers will inevitably seek to minimise their purchase costs and will shop around for cheaper substitute products. This approach to price comparison and product switching will be heightened during this recession as it is effectively the first of the online price comparison website era. Commentators in the past have therefore called for organisations to use market-based approaches to pricing as the way to retain customers and attract new ones. Cutting prices would nevertheless be a dangerous strategy for some,



especially given their precarious financial positions. Moreover, price cuts can also cheapen brands, undermining their core values. Hence, the smart sports organisation will reduce prices in a way that creates value for customers while maintaining the integrity of the brand and locking customers in to repeat purchases. This will therefore mean using initiatives such as rebates, volume discounts and early purchase discounts.

**There are however a range of organisations that will struggle to cope, because they have either fundamental weaknesses in the way they operate or they have yet to confront some of the operational and managerial challenges they face:**

- **The ‘Debt Devils’** Given the history and heritage of some sports organisations, allied to their amateur origins, and to the willingness of managers in and around sport to sustain their organisations on the basis of debt, many clubs, teams and other sports organisations are sustained on the basis of long-term debt. That such a practice continues will be in part cultural, in part due to managerial inefficiency and otherwise reflect the economic realities facing many sports (particularly those of minority interest). Beyond this, the infrastructural demands of sport, such as the construction of new stadia and better facilities, often necessitates that sports organisations have no alternative other than to borrow heavily from financial institutions. For any sports organisations that find themselves in one of the positions above, they are likely to be susceptible to the downturn, most notably the component that is commonly being referred to as the ‘credit crunch’. As the availability, and possibly the cost, of debt rises, those that are sustained by it will increasingly start to struggle as cost pressures rise. One way to offset this would be to generate new revenue. However, in a market where consumers are reigning in expenditure, the competition, and potential returns, for this will be intense. One can thus foresee that the continued existence of some sports organisations is likely to come under intense pressure in the coming months. Moreover, it is also highly likely that those sports organisations planning major programmes of expenditure (such as stadium construction or resource acquisition) will have to postpone their plans until economic conditions are more conducive to them successfully securing appropriate funding.
- **The ‘Distantly Doomed’** One major problem for European and British sports organisations is that many have traditionally had a somewhat distant relationship with their customers, be they ticket purchasers, buyers of replica shirts or armchair fans. As such, some sports organisations often do not truly understand what motivates the people to consume the products they produce, nor do they know on what basis their customers will reduce their consumption. As such, many of us are unlikely to really understand what the full extent of the economic downturn will be. In one sense, this constitutes a real opportunity for some to reappraise both their approach to marketing and their relationship with customers. However, there will be organisations that remain distant from their customers and it will be these that fail to read economic signals and changes in consumer demand. These organisations will be the ones who suffer most over the next year because they will fail to adapt their product and fail to respond the new economic realities facing many of their customers.
- **The ‘Financially Fallible’** Related to the ‘Debt Devils’, the ‘Financially Fallible’ will often have either a dismissive or an indifferent view of financial controls. In addition, such may be the pressures facing some sports organisations, particularly player acquisition and remuneration costs, that financial controls may be either difficult to manage effectively, or else skewed heavily towards revenue generation (see also the ‘Selling Slaves’ below). Given the need to compete and be successful on the field of play, many sports teams and clubs are therefore beholden to the market. If external forces conspire in such a way that they inflate player acquisition/remuneration costs, it is difficult to not follow suit. However, current economic conditions are likely to impose the need for restraint in such matters, at least for those not operating at the top of elite level sport.  
  
**“The problem in chasing customers and revenue on a short-term basis is that it is a) costly (commentators believe that it is between 5 and 9 times more expensive to find new customers than it is to keep an existing one); b) during difficult trading conditions, people do brand switch more readily and may even cease purchasing an item altogether; and c) it therefore makes such organisations acutely susceptible to falling demand.”**
- **The ‘Selling Slaves’** For organisations that are marketing oriented and market-led, one would hope that their understanding of trading conditions, allied to skilful management, will be sufficient to sustain them through this difficult economic period. In sport, there are many such organisations and they will be well equipped to ride the storm. However, there are many sports organisations that are still operate within an outdated, sales driven business paradigm. That is, the short-term sale dominates over the development of long-term business relationships and sustainable revenue streams. In sport, one can understand such a mentality because schedules, seasons, the organisation of competitions and trading periods dictate that managers and decision makers are faced by constraints that are often far less prevalent than in many other sectors. However, the problem in chasing customers and revenue on a short-term basis is that it is a) costly (commentators believe that it is between 5 and 9 times more expensive to find new customers than it is to keep an existing one); b) during difficult trading conditions, people do brand switch more readily and may even cease purchasing an item altogether; and c) it therefore makes such organisations acutely susceptible to falling demand.
- **The ‘Knee-Jerkers’** During hard times, it is an inevitability that some organisations, both inside and outside sport, will fail to hold their nerve and react in a knee-jerk way to any difficulties they might face. In one sense, this is likely to reflect fundamental weaknesses in their organisations and activities. For instance, organisations sustained on the basis of debt may well run scared when confronted with the prospect of declining revenues and restricted access to financial funds. It may also be the case that some will immediately engage in ‘slashing and burning’, thereby undermining what might otherwise be a team, a club, a brand or an organisation that retains some equity and value in spite of recessionary conditions. ‘Knee-Jerkers’ not only undermine themselves therefore, they also contribute to a growing sense of fear of paranoia.
- **The ‘Management Malcontents’** The ‘Malcontents’ are close relatives of each of the above and effectively summarise

the culture that prevails in some sports organisations that will struggle to get to grips with current economic problems. Although sport has commercialised over the last decade or so, many sports in their current form have yet to encounter recessionary conditions. The next year will consequently be a real test for them, particularly their managers who will be required to chart a course through difficult territory. One question that inevitably must be asked is whether or not there is sufficient managerial competence in some sports to successfully do this. Some sport organisations routinely recruit from within, and managers often have little or no experience in dealing with such challenges, nor the appropriate managerial training and development that will help them.

• **The 'High Street High-Jacked'** British retailing has witnessed major successes in recent years, with high street stores and brands, shopping centres and channels of distribution all having performed impressively. However, as consumer expenditure has taken a sharp dip, there is clear evidence that retailing is already suffering at the hands of harsh trading conditions. Nowhere is this more evident than in the sport retailing sector. Although some people remain bullish at the prospects for the sport retailing sector, it would seem that sports organisations that retain significant high street interests will encounter turbulent times over the next year. Hence, dedicated sports retailers, as well as clubs, teams and other organisations that generate revenue through retail activities, are likely to struggle. For organisations selling replica shirts, kits, and other branded goods and services, this will mean that some careful management will be required in the coming months.

Like all good dramas therefore, the story of sport and the recession has indeed twisted and turned. Some organisations are using a vision of recessionary apocalypse merely as the prompt to a strategic exit from various sports, while others in the industry face genuine problems which threaten their very existence. Whichever of these two observations is relevant, one senses that we are not yet beyond the first act of this particular drama. Following years of unprecedented growth and commercial development, the downturn will inevitably bring industrial wastage through which inefficient, unprofitable sports organisations will come under threat. For sports without broad appeal, there will certainly be fears for their long-term health and viability. In such cases, the recession will thus be much more than a period of severe turbulence it may actually sound the death-knell for them. We can therefore only metaphorically hope that ultimately, in true dramatic fashion, the good guy gets the girl (or vice versa), and sport lives happily ever after. However, such is the current uncertainty about the full impact of the recessionary conditions, sport must prepare itself for a scenario where the bad guys not only survive, but also get away with the damage they have created, and it be twelve months or more yet before we finally find out whether or not this is the outcome.

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### About the author

**Dr Simon Chadwick** is Professor of Sport Business Strategy and Marketing at [Coventry University](#). He is a Director of CIBS, Editor of the International Journal of Sport Marketing and Sponsorship and has worked with organisations involved in sport including the Football Association, Mastercard, the four tennis Grand Slams and FC Barcelona. Professor Chadwick has been widely quoted in various media outlets including the Wall Street Journal, Forbes, Time, Newsweek, The Economist, Bloomberg, CNN, Reuters and the BBC. He is the author of more than 300 books, papers, articles and reports on sport. [simon.chadwick@coventry.ac.uk](mailto:simon.chadwick@coventry.ac.uk)

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